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## DIRECTORATE OF INTELLIGENCE

20 November 1987

Implications of a Cutoff of US Aid to Pakistan [REDACTED]

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Summary

The most important impact of a US aid cutoff would be on Pakistan's long-term military modernization program. Islamabad has placed great emphasis on acquiring items, such as F-16 fighters and Stinger missiles, hoping sophisticated weapons would reduce India's quantitative advantages. The slowdown in Pakistan's military modernization program caused by an aid cutoff would undermine US nuclear non-proliferation goals in South Asia by reducing constraints on Islamabad's effort to attain a nuclear capability. India would welcome a cutoff of US aid, and relations between the United States and India would probably improve somewhat. Nevertheless, a cutoff of US aid to Islamabad would not have a significant impact on India's nuclear policy.

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President Zia is not likely to halt Pakistan's support to the Afghan resistance if US aid is ended, but a US aid cutoff would reduce or eliminate US influence over the terms of a political settlement. A US aid cutoff also would strain certain sectors of the Pakistani economy and make foreign investors and businessmen reluctant to put funds into Pakistan. President Zia and Prime Minister Junejo would be embarrassed by a US aid cutoff and would become more vulnerable to domestic critics. Nevertheless, we believe that both would survive the political damage.

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We judge a short-term aid cutoff, such as the Obey proposal for a 105-day suspension, would have only a limited impact on US relations with Pakistan. We would anticipate a temporary chill in bilateral relations,

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but we doubt US-Pakistani relations would be fundamentally impaired. Therefore, we have concentrated on a long-term aid cutoff. [REDACTED]

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### Effects on Pakistan's Military Modernization

The most important impact of an aid cutoff would be on Pakistan's long-term military modernization effort, in our judgment. Islamabad has placed great emphasis on acquiring expensive, modern arms, such as F-16 fighter aircraft and Stinger missiles, hoping sophisticated weapons would be a counter to India's quantitative advantages. Under a US aid cutoff, we believe Pakistan would turn to China for relatively cheap, but non-state of the art weapons and to Western Europe for much smaller quantities of expensive modern arms. Pakistan, however, would be able to afford fewer sophisticated weapons because West European financial terms are likely to be less generous than those offered by the United States. In short, the military balance would remain tilted in India's favor. [REDACTED]

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An aid cutoff would reinforce Pakistani perceptions that the United States is an unreliable partner and lessen Pakistan's strategic cooperation with the US military. Pakistani policy makers would be even less inclined than they presently are to undertake steps which could be construed by Iran as supporting the US presence in the Persian Gulf. Islamabad would extend its de facto ban on US Navy port calls for the length of the aid suspension and would probably postpone or cancel other US-Pakistani military cooperation programs, such as P-3 flights into Karachi. [REDACTED]

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### Effects on Nuclear Proliferation

We believe that the damage an aid cutoff would do to Pakistan's military modernization would also undermine US nuclear nonproliferation goals in South Asia by reducing constraints on Islamabad's drive to attain a nuclear capability. Without access to modern US equipment, Islamabad is likely to conclude it lacks sufficient quality weapons to offset India's numerical superiority. As a result, we believe Pakistani policy makers would perceive a nuclear weapons capability as their only dependable counterweight. [REDACTED]

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Although US military assistance has failed to halt Pakistan's clandestine weapons program, it has been a disincentive to Pakistan testing a device or an overt program. An aid cutoff, in our opinion, would almost certainly result in a Pakistani decision to accelerate clandestine procurement in the United States. We believe Pakistan would press ahead as fast as possible on acquiring the equipment and expertise it needs to deploy nuclear weapons and develop guided missiles. [REDACTED]

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Moreover, we believe an aid cutoff would strengthen those who argue Pakistan should go overt as a means of demonstrating national resolve and defense capabilities against India. On balance, however, we anticipate that Pakistan's leaders would conclude the dangers of a strong Indian reaction and the potential international political and economic costs would outweigh the advantages of going overt with a nuclear weapons program. [ ]

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#### Effects of an Aid Cutoff on Indo-US Relations

Relations between the United States and India would probably improve somewhat after an aid cutoff, in our opinion. New Delhi could view a cutoff as a de facto American recognition of Indian claims to regional dominance. We would not expect large increases in New Delhi's purchases of American technology or significant changes in attitudes toward military cooperation with the United States. We also do not believe that an aid cutoff--by itself--would have an impact on India's nuclear policy. [ ]

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#### Impact on Pakistan's Policy Toward Afghanistan

We believe President Zia would not halt Pakistani aid to the Afghan resistance, despite a prolonged US aid cutoff, because of Islamabad's own need to get Soviet troops out of Afghanistan and the refugees home. Sustaining the resistance is also an important element of Pakistan's relations with China, Saudi Arabia, and Iran. Islamabad most likely would determine that it is in its interest to continue cooperating with US efforts in supporting the resistance, at least in the near term. We would, however, anticipate that the Pakistani Government would slow consideration of US-sponsored, cross-border humanitarian assistance and would reduce consultations with US officials on the war, resistance strategy, and bilateral talks with the Soviets. [ ]

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Although Pakistan is likely to continue aiding the resistance, we believe it would become more susceptible to Soviet pressure and more likely to agree to a settlement more favorable to the Kabul regime. Islamabad would expect Moscow and Kabul to step up the sabotage campaign to put additional pressure on Pakistan. With US resolve in doubt, Pakistani leaders would be less optimistic about their ability to utilize prolonged Afghan military resistance to achieve a favorable settlement. Under these circumstances, we judge Islamabad would be inclined to accept a longer Soviet withdrawal timetable, possibly with fewer safeguards against Soviet backsliding. Moreover, Pakistani policy makers probably would feel less constrained to consult with the United States before agreeing to a settlement. [ ]

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Economic Impact of A Possible US Aid Cutoff

A cancellation of US aid likely would strain certain sectors of Pakistan's economy and lead foreign investors and businessmen to be reluctant to put funds into Pakistan. Although much of the US economic aid is earmarked for agricultural, energy, and infrastructural projects that have long implementation periods, the loss of some project aid--used to purchase fertilizers, for example--would have an immediate impact on Pakistan's agricultural production. If businesses and investors lose confidence in Pakistan's economic strength and stop issuing foreign credit, Islamabad's troubled foreign exchange situation would deteriorate. In turn, Pakistan's ability to continue importing large amounts of oil and machinery--together comprising more than one-third of all imports--would be weakened, causing a deterioration of the industrial sector. [ ]

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Pakistan probably would look to other Muslim countries to fill the aid gap. According to press reports, Pakistani officials believe that \$5.7 billion of foreign aid is in the pipeline from the World Bank, Asian and Islamic development banks, and the Donor Consortium (a group of western aid donors) and that only a prolonged cutoff that included all foreign donors would force Pakistan to take drastic economic measures. [ ]

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According to press reports, the Soviets have offered their own \$4 billion aid package, but we are skeptical about Moscow's ability to provide large amounts of aid and believe it would only come in return for Islamabad's acquiescence to an Afghan settlement on Moscow's terms. Bilateral trade with East Bloc nations has increased this year, but we do not believe that Bloc countries could provide additional aid of any significant amount. [ ]

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Islamabad has several options to deflect the domestic economic repercussions of an aid cutoff. Pakistani officials almost certainly would justify any belt tightening on the grounds of demonstrating Pakistan's independence from the United States, and we believe this would successfully mitigate most public unhappiness with austerity. Mehboob-ul Haq, Minister of Commerce and Planning, has long been urging economic reforms and, by using an aid cutoff as an excuse, could have an easier time selling his reform package. He has threatened to stop payments on foreign loans, claiming Pakistan's ability to repay depends on a steady flow of fresh loans. [ ]

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Implications for Political Stability

President Zia and Prime Minister Junejo would be embarrassed by a US aid cutoff, but their leadership would not be placed in serious jeopardy. Zia, in particular, has invested considerable political capital in cultivating closer ties to the United States. He would be vulnerable to

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domestic critics, such as Pakistan People's Party leader Benazir Bhutto, who would argue Zia had sacrificed Pakistani independence for what had proven to be an ephemeral relationship with the United States. Critics on the political left would intensify their charges that Pakistan's support for the Afghan resistance serves US rather than Pakistani interests, charging that Zia risked the nation's security by leaving Pakistan exposed to Soviet retaliation. They would point to the US aid cutoff as proof that the United States would leave Pakistan to its fate if the Soviets attacked. We anticipate that Benazir Bhutto would initially refrain from attacking Pakistan's Afghan policies but would quickly join the chorus if she perceived such charges were striking a popular chord. [ ]

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Nevertheless, we believe Islamabad could surmount the political damage incurred from disruption of the US relationship. Although the issue would be a powerful one for the opposition parties, we do not believe they would be able to unite effectively against the President and Prime Minister. Moreover, Zia has proven in the past that he can exploit external pressure to rally domestic support. He could point to his resolve to maintain Pakistan's military independence in the face of US "bullying." In our judgment, Zia and Junejo would be in serious domestic trouble only in the unlikely event that the US aid cutoff provoked a rapid and substantial downturn in the economy that could not be alleviated by austerity programs. [ ]

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An aid cutoff--independent of other events--would probably not lead the Army to break with Zia or to begin plotting against him. Key military leaders almost certainly are convinced that a nuclear capability is essential to Pakistan's survivability. We believe they would conclude that the aid rupture was a justifiable risk to procure such a capability. They would probably focus their resentment on Washington. We envision two possible scenarios, both made slightly more likely by a US aid cutoff, that could lead the military to turn against Zia. If our judgment that a cutoff of US aid would not cause unmanageable economic problems or that the opposition could not effectively coalesce to challenge the government's policies on Afghanistan prove incorrect, the Army might reimpose martial law to restore law and order. A significant change in Indo-Pakistani relations whereby Islamabad had to accept de facto second-class status vis-a-vis India could provoke resentment among the military's leadership. [ ]

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